Standard USHC-7: The student will demonstrate an understanding of the economic boom-and-bust in America in the 1920s and 1930s, its resultant political instability, and the subsequent worldwide response.

USHC-7.4 Explain the causes and effects of the stock market crash of 1929 and the Great Depression, including the disparity in incomes, limited government regulation, stock market speculation, and the collapse of the farm economy; wealth distribution, investment, and taxes; government policies and the Federal Reserve System; and the effects of the Depression on human beings and the environment. (H, E, G, P)

Taxonomy Level: 2.2 B Understanding/ Comprehension

Previous/future knowledge:
In the 5th grade, students were introduced to the stock market crash of 1929 and the Great Depression, including economic weakness, unemployment, failed banks and businesses, and migration from rural areas. (5-4.1)

In 12th grade Economics, students will learn about the economic cycle. The stock market crash and the Depression provides an opportunity to introduce through concrete examples many of these concepts that students will need to master in their economics course. In Economics, students study how the distribution of income affects public policy. In the 1920s the maldistribution of income contributed to the weakness of the economy (ECON-3.1). Students will explain the effect of surpluses in a market economy and changes in the price of products as a result of surplus. Surpluses caused farmers in the 1920's to get a low price for their crops and thus undermined the economic health of the farm sector of the economy (ECON-2.4). Tax policy of the 1920s led to speculation in the stock market and demonstrates the effect of changes in taxation and government regulation on entrepreneurial decisions (ECON-3.2). An examination of economic policy in the 1920s provides an opportunity for students to contrast the costs and benefits of the American government's economic policies (ECON-7.5). The stock market crash shows the risks and benefits involved in short- and long-term saving and investment strategies (ECON 4.2). Consumer decisions not to spend during the hard times impacted the demand for goods and illustrates the impact of economic decisions and the choices that individuals make on the economy (ECON-4.1). The impact of the crash and evolving depression on the banks demonstrates the roles of and relationships among economic institutions in a market economy, including the banking system and its interaction with business firms and consumers (ECON-5.2). Rising unemployment rates during the 1930s is a good introduction to this measure of economic health (ECON-7.1). The role of the Federal Reserve in the 1920s and 1930s provides a concrete example of inappropriate and ineffective application of monetary policy and an introduction to the structure and function of the Federal Reserve System. (ECON-7.3) The use of pump priming and deficit spending during the New Deal illustrates the role of the money supply in a free market economy (ECON-7.2).

It is essential for students to know:
Students should know that the stock market crash was not the cause of the Great Depression but rather an outward sign of long term problems within the economy. After the crash *signaled* the start of the Depression, it evolved over a period of years spiraling deeper and deeper until the massive government spending during World War II finally ended it. The basic underlying problems in the economy were declining demand and overproduction.

The 1920s *seemed* prosperous with high employment rates and almost no inflation. Industrial production and per capita income were both up, however, this was a false prosperity. The **disparity in incomes and the distribution of wealth** was very large and uneven. The gap between the rich and the poor widened during the 1920s; the wealthiest Americans had a far greater share of the disposable income. The great majority of Americans lived below the poverty line ($2500 in 1929 dollars). Wages for most workers fell or stagnated during the 1920s, despite increasing productivity. Companies did not pass on their prosperity to their employees and workers could not afford to buy the products they manufactured. When consumers reached their limit of installment payments, they had to stop spending. This drop in consumer spending led to lay-offs and furthered the inability for workers to spend. It is important for students to understand the cyclical nature of these economic decisions.

During the 1920s, the **farm economy collapsed**. Farmers who had prospered in the war years now faced international competition and depressed prices as well as debts and taxes in the 1920s (as they had in the 1890s USHC 5.3). Farmers' defaults on bank loans placed pressure on banks and many banks failed *before* the crash. These bank failures, in turn, limited the number of loans available for small businesses which then could not expand and hire.

Under the Republican administrations, the federal government abandoned its previous policy of progressivism and **limited** the **government regulation** of Big Business that had started with the trust-busting of Teddy Roosevelt. Corporations became increasingly powerful. The tariff was raised. The Supreme Court overturned limitations on child labor and minimum wage laws for women. Income **taxes** for the wealthy were slashed; however, this did not help the economy. The wealthy spent a high proportion of their income on luxury goods and could not make up for the loss of spending power of the great majority of the people. Much of their tax savings was put into **investments** in the stock market rather than in new factories, since there was limited demand for goods. Investments in the stock market drove up speculation in businesses that could not sustain profitability in the face of lagging consumer demand. At the end of the 1920s, businesses cut back production; this resulted in excessive inventories. Companies then also invested their money in stock market speculation rather than in production. Investors, noting the large inventories, began to reconsider their investments.

Stock market speculation fueled by a "get rich quick" mentality led to inflated stock values and to a crash. The stock market was not regulated and investors were allowed to buy on the margin. That is, inventors were allowed to borrow on the paper value of their stock in order to buy more stock. When an unusual number of sell orders kicked the bottom out of the market in October of 1929, brokerage firms called in their margin loans. Investors were forced to sell at low prices in order to meet their obligations and as a result stock prices plunged. Although prominent bankers helped to prop up the market for several days, public confidence was shattered. On "Black Tuesday," October 29, 1929, the market experienced the greatest crash in its history, an event that symbolized the end of the false prosperity of the 1920s. Over the next few years, the economy spiraled deep into a depression exacerbated by decisions of individual companies, consumers and investors as well as by the policies of the Federal Reserve.

The **Federal Reserve**, established in 1913 as the nation's central bank, has the capacity to regulate the money supply by making loans to banks, which then make loans to businesses, which hire workers, who buy products. Early in the 1920s, the Federal Reserve pursued easy credit policies. By charging low interest rates on its loans to member banks, the Fed helped to fuel the speculation mania. In the late 1920s, the Federal Reserve initiated a tight money strategy in an effort to curb stock market speculation. By charging higher interest rates for their loans, the Fed discouraged lending. After the crash, they tightened the money supply even more thus making it even harder to limit the effects of the crash. If the Fed had cut interest rates and expanded the money supply, the Depression may not have been as intense or as long lasting.

Government policies did little to halt the downward spiral of the economy. In an effort to protect American industries from foreign competition, Congress passed a very high tariff in 1930. The taxes on imports further damaged the economy by depressing international trade. Foreigners were unable to sell their goods in US markets, and so could not buy American products. In reaction to this U. S. policy, foreign nations imposed trade barriers of their own, stifling international trade and further exacerbating the depressed condition of the world's economies. President Hoover urged companies to voluntarily maintain wages and hours, but this was impossible in the face of much lower consumer demand. Companies instead laid off workers and cut hours. Advocating the American value of "rugged individualism," Hoover urged confidence and announced that "prosperity is just around the corner."

The Great Depression had a devastating **impact on the lives of many people**. It was the worst economic disaster to ever hit the United States. The unemployment rate reached 25%. The United States had no system of unemployment insurance like other western countries. Unable to pay mortgages or rents, people lost their homes and took to the streets wandering from town to town looking for a job or selling apples or pencils door to door. Wages and hours of those who were lucky enough to still have jobs were cut. Those with jobs stopped buying anything but the most essential goods and consequently prices fell even further. "Runs" on the banks took place when people tried to withdraw their savings because they feared that the bank would close taking their savings with it. This panicked rush of withdrawals often caused banks to collapse and many investors lost their savings as a result. Students should be familiar with the images of the Depression: soup kitchens, bread lines, Hoovervilles, the Dust Bowl and Okies fleeing to California. Many were undernourished. Schools closed because communities could not pay their teachers; many teachers worked for nothing. The Great Depression took a terrific toll on families. Marriages were delayed and the birthrate fell. Although divorce rates also declined, many men abandoned their families. Other families pulled together to help each other out. Unemployed men lost status and women and children were forced into the work force to find whatever menial job might feed their families. States and private charities could not alleviate the suffering created by the Great Depression. Increasingly, people looked to the federal government for solutions.

The Dust Bowl affected the **environment** of the western plains and also produced additional human tragedy. The fragile environment of the plains had been damaged by overgrazing beginning in the 1890s. During World War I, farmers had plowed the plains and planted wheat which destroyed the sod that held the soil. When drought and winds came in the 1930s, the top soil blew away. Tenant farmers were evicted from the land and became migrant workers, roaming the country in search of work. In the election of 1933 the American people demanded help from their government.

It is not essential for students to know:
Students do not need to know the exact dates of the crash although they *should* know 1929. They do not need to know that J. P. Morgan put up $20 million to try to stop the crash after the selling spree on Black Thursday. Students do not need to know the name of the high tariff of 1930, Hawley-Smoot. They do not need to know that President Hoover went farther than any president before him to address the problems created by the Great Depression. They do not need to know about the Hoover administration's Reconstruction Finance Corporation, designed to give government loans to businesses and banks but not to individuals, or the President's Organization on Unemployment Relief, designed to encourage private charity for relief of the destitute. They do not need to know that Hoover rejected the repeal of Prohibition or that he vetoed bills that would give direct federal relief to individuals. They do not need to remember the Farmers' Holiday Association or the Bonus Army, although these are good indications of human suffering and desperation.

Assessment guidelines:
Appropriate assessments will require students to **explain** the causes and effects of the crash and Depression. Students should be able to **classify** and **identify examples** of the causes for the Depression. They should be able to **interpret** the relative importance of each of these causes and be able to **infer** their impact on human beings. Students should be able to **interpret** maps, graphs and political cartoons and **infer** their relationship to information about the time period. Students should be able to **compare** the

impact of the crash and depression on various groups of people in the United States. They should be able to **summarize** the impact on human beings and on the environment during the Depression era.